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MANAGEMENT DISCUSSION SECTION

Unverified Participant

Good morning, everyone. I'm [ph] Gerry Benson (00:05) and up next we have Regions Financial. Regions Financial is a commercial bank based in Birmingham, Alabama with about $125 billion in assets. They provide banking services throughout the South Midwest and Eastern United States. They operate through three main business segments: corporate banking, consumer banking, and wealth management.

Presenting today for Regions is David Turner, Chief Financial Officer. David joined Regions in 2006 and was named CFO in 2010. And with David today we have John Owen, Chief Operating Officer, as well as Amala Duggirala, Head of IT.

Thank you. Please join me in welcoming David. Thank you.

David J. Turner, Jr.

Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

Thank you, [ph] Gerry (00:53). And I appreciate everybody attending this year's BAAB Conference. I'm going to have just a few comments and then we'll walk over and take your questions later on. Do want to reference our forward-looking statement disclosure that is included in the appendix for today's presentation which will cover my comments as well as our Q&A that follows.

So let me start with a quick summary of the third quarter. I know you've seen it. But we were very pleased with our reported results for the quarter with net income of $354 million, up 20% year-over-year and earnings per share up 28% year-over-year. We generated 3.4% positive operating leverage on an adjusted basis and our adjusted efficiency ratio was 59.7%, so below the 60% level that we had as our target that we laid out the beginning of the year. Our asset quality remains benign as well.

So let me quickly remind you of what we see really as four key strengths of Regions that we think provides pretty considerable momentum for us. First, we continue to benefit from asset sensitivity and a very solid, low-cost and loyal deposit base.

Second relates to asset quality. We believe the de-risking that we've done, portfolio shaping that we completed, combined with our sound risk management practices have really positioned us well for the next credit cycle. And we're not calling on the credit cycle right now, but when it does come, we think we'll be well prepared.

Third, our capital position remains and supports prudent growth which we really want to use our capital for growth and investments. And if we don't have those opportunities, we'll return the capital to our shareholders as you have seen.

And then finally, we expect additional improvements in our core performance through our continuous improvement focus under the heading of Simplify & Grow that we'll talk about in a minute.

So, I want to go into each one of these categories just a bit. So, if you think about our asset-sensitive balance sheet, we continue to benefit through rising rates including the reinvestment of cash flows from our fixed rate loan portfolio as well as fixed rate securities, and that's about $14 billion over the next 12 months that we have reinvesting that we think will pick up a point to a little over a point.

We are predominately deposit funded, and those are comprised mostly of smaller account balances, consumer account balances. We have incorporated strategies, balance sheet strategies to help manage interest rate risk with the goal of being able to deliver consistent and sustainable performance. And so you saw some hedging that we've put on in this past quarter in our 10-Q.

And while this activity reduces asset sensitivity, it is constructed to also protect earnings in a low-rate environment. Our deposit base remains the key to our franchise value and is the foundation of our asset sensitivity.

So, let's look at our deposit advantage. Today, more than two-thirds of our deposits are retail deposits. Half of those retail deposits are from customers that have been banking with us for more than 10 years. We benefit from a high percentage of customer operating accounts, so these are transactional and as a result, typically have smaller balances which average in the $3,500 range.

Consumer checking, savings, and Now accounts make up over 60% of all consumer balances, and these balances are typically less interest sensitive and support our lower deposit betas. As a result, our deposit betas have been the lowest in the peer group with our through-the-cycle beta at 15% compared to the peer median of 27%, and that's cycle to-date.

And while we do expect deposit betas to increase, we continue to believe our large retail deposit franchise positions us to maintain lower deposit betas relative to peers. So, let's see how this really impacted net interest income and the margin.

Net interest income increased 2% over the prior quarter and net interest margin increased 1 basis point to 3.5%. Both net interest income and margin benefited from higher market interest rates as well as loan growth and loan remixing, partially offset by the increased wholesale funding that you saw.

Looking to the fourth quarter, our recent loan growth, the high likelihood of another rate increase in December, and an expectation for an increase in deposit cost should result in continuation of recent growth trends in net interest income and 3 to 5 basis points expansion of our net interest margin. So, this would put us right in the middle of our 5% to 6% NII growth expectation that we've provided to you.

The second item is asset quality. As a reminder, our third quarter metrics include the results of the most recently completed Shared National Credit exam. We reported another decline in nonperforming loans in the third quarter with a resulting NPL ratio of 66 basis points, the lowest level for us in over 10 years.

We experienced a modest uptick in business services' criticized loans this quarter due primarily to two credits. But importantly, we don't view this as systemic or indicative of any emerging issues. We also report an increase in charge-offs during the third quarter, again driven primarily by two credits.

So, stepping back, I think it's important to highlight the significant enhancements we've made to our credit risk infrastructure. Our teams remain focused on relationships and risk-adjusted returns rather than growth for growth's sake. And our de-risking and portfolio shaping activities around multifamily, medical office buildings, energy, our Shared National Credit, capital recycling, construction lending, and indirect auto to name a few have we believe positioned us well for the next credit cycle.

The third advantage is capital. We continue to maintain a very strong capital position. Our common equity Tier 1, as you see, declined approximately 80 basis points in this quarter, driven primarily by share repurchases as well as our 56% increase in our common stock dividend. You now have seen we repurchased $1.3 billion of common stock during the third quarter. These repurchases included both open market purchases as well as an accelerated share repurchase agreement which was closed effective October 24 and we received an additional 8.8 million shares on October 29. So, subsequent to our quarter, and now we're settled on that transaction.

The final advantage is the improvement in core performance through our continuous improvement initiatives. We call it Simplify & Grow and John Owen who will talk in the minute or answer questions in a minute has really been spearheading the Simplify & Grow initiative and it has made a tremendous difference in our company to the positive.

The primary objectives are making banking easier for our customers and our associates, accelerating revenue growth, and driving operating efficiency and effectiveness. We began this work late last year. And through September, we simplified our management structure, we eliminated our geography hierarchy, so we're straight line of business. We made a decision to sell Regions Insurance Group. We continued to refine our retail network strategy and announced further branch consolidations and we'll have plans and have plans for some new branches.

Through September, full-time equivalent positions were down 1,500. That excludes the positions that were associated with the Regions Insurance Group, which were about 645. If you include those two, we expect position reductions of approximately 9%, almost 10% year-over-year.

Now currently we have 45 initiatives underway to drive revenue and reduce expenses. We are asking all executives to continue to have initiatives where we can improve process. So every executive needs to come to the table. We have routine meetings and they have to identify how do we get better tomorrow. Regardless of what we've done already, how do we continue to get better. And that's part of our culture that John Turner, our new CEO, wants to build into our company.

So while simplification is important, we're also making investments to facilitate growth. We realized we need to continue to make those investments and we're hiring new commercial and corporate RMs, wealth advisers, mortgage loan originators, and we're adding talent in capital markets and digital banking. We're also adding branches, as I mentioned, in some targeted growth markets. We continue to streamline processes too to help make it easier for our customers and then for our associates.

And then I'll give you an example. We accelerated our commercial credit decisioning process and we reduced response time 70%. And what we have found is, if you reduce response time, get an answer back to your customer, you will grow revenue.

We have fully digital loan officers for all consumer lending. If you look at mortgage and our home equity, it takes you about 5 minutes to fill out an application. And in the case of mortgage, the number of applications that were done digitally were about 20%. We've made changes, and that number is about right at 57% in nine months. So, it's making a difference.

We've also made investments in technology. We have what we call Reggie. That's our virtual banker. You can imagine where the name came from. But year-to-date, we've handled over 1 million customer calls and 1 million internal banker inquiries. So, what we're trying to do is really leverage AI to handle questions that our customers may have or our associates in the most efficient and effective manner.

We also have ROSIE, and ROSIE is our AI-enabled branch assistant, and it uses internal and external data to help determine the next best action or offer to our customers and are tailored to each customer's needs. So, we're excited about that. We've also invested in new commercial, treasury, and wealth systems to facilitate additional growth.

So at the end of the day, what's important is that we can reduce expenses all day long, but we need to continue to grow our customer accounts.

So, execution of our strategy along with these investments to grow have resulted in checking accounts being up 1.4% year-to-date. Year-over-year, consumer noninterest-bearing checking is up 5%, savings are up 7%, active credit cards are up 6%, and total new and renewed loan production is up 3%.

So, looking specifically at consumer, while we benefit from customer loyalty, we're also having success growing accounts for younger customers. Approximately 45% of our new consumer checking accounts fall in the under 30 year old segment.

Importantly, we're also experiencing success with digital adoption. Over 55% of consumer checking customers utilize multiple channels. 75% of all interactions are through digital channels.

So, we have a lot going on. We're excited about the progress we've made to-date. But we have more work to do and we're on it. Our full year expectations are unchanged and are summarized on the next slide for your reference.

So, our goal is really to create a consistent, predictable and sustainable financial performance for our company. And today, we think we're well positioned to make this objective come true.

With that, I'm going to walk over. We're going to take your time and questions and answer whatever you may have. And we'll repeat the question too, understand that's important.

QUESTION AND ANSWER SECTION

Q

Thank you, David. And similar to other in-conversations, if there are questions from the audience, please raise your hand. Maybe following up on your last comment, David, about predictable and sustainable profitability, what levels do you think you can achieve to make that sustainable, whether it's a return on equity number or a return on asset number? How do you look at that? How do you frame it?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yes. So, several things. We've improved. We've really focused on risk-adjusted returns in our businesses. That's really been a cultural change. We're not interested in nominal growth of revenue, nominal growth of the balance sheet, nominal growth of net income. It's about the proper growth, the right risk-adjusted return so that we can get our return on tangible common equity up.

We'll be at approximately 16% this year. We think there's another point or two left over time. Maybe if things remain benign for an extended period time, maybe you push past that, but it's not about top ticking margin and top ticking revenue in return. It's about being able to maintain an appropriate return for the kind of bank that we're building, such that when things turn, and they will, that we weather that storm and that we're prepared and we anticipate the storm versus sitting on the beach and waiting for the tsunami wave to overrun you. We're going to listen for the earthquake that creates the wave and deal with that more timely. So, that's what's sustainable and predictable is for us, and I think having an appropriate return to the shareholders is what's most important.

Q

Yes?

Q

[indiscernible] (16:57-17:18)

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

I'll let John and Amala talk about this. So, we haven't disclosed our technology budget. But, John, why don't you talk about what we are doing.

John B. Owen
Senior Executive Vice President & Chief Operating Officer, Regions Financial Corp.

A

Let me talk a bit about what we're doing. This is IBM Watson product we're using. We started that process about a year and a half ago. We started in really two places in the bank. We started in our risk management area with BSA/AML, and we also started in the contact center. And what we're trying to do with AI in the contact center really is around how do we enable our reps to better serve our customers and how do we get a better experience for our customers.

So, two things we're doing in the contact center. First, one example would be customer calls in an online banking or mobile question, they'll actually get Reggie which is a digital assistant. And Reggie will actually handle the call and never pass that person off to an agent. The second thing we're doing is our reps, when they're listening to a customer and the customer is asking a question, they can google IBM Watson for the answer to the [ph] question's answering (18:11). So, I think what we're trying to do is really make this a digital assistant for our reps and really enable them to have consistency, better training times. And also, just call volume itself, Reggie has handled about 60 – equivalent about 60 people of calls.

On the ROSIE side, what we're doing with ROSIE, it's more of a predictive AI system. So, what ROSIE does is for every customer we have, so, you walk in any one of our 1,455 branches, that branch associate knows that customer and has a unique personalized offer, next best action for that customer in every branch. If you call a contact center, it's the same thing. You'll get a unique offer based on your background, based on your profile and back on your data.

We're trying to integrate this as well into online and mobile. We're not quite there yet. We've started in the branch and contact center, and we will be going to the online and mobile space as well.

Q

Maybe, John, we could talk about the Simplify & Grow. You've obviously made progress here. Can you share with us, was that the low-hanging fruit, the first months of success? And maybe some detail on the initiatives that now that you see coming down the pike.

John B. Owen
Senior Executive Vice President & Chief Operating Officer, Regions Financial Corp.

A

Yeah, just a little bit of background on Simplify & Grow. Really as David said earlier, it's focused on three things: how do we make banking easier for our customers and our associates, how do we accelerate revenue, and how do we be more efficient and effective. So we've got about 45 initiatives identified, the results I would tell you for first year, we've reduced head count by about 9% to 10%. We've also, our second largest expense at the bank is occupancy expense. We've taken about 750,000 square feet out of the system and we expect to do similar results like that next year as well.

So to your comment on the low-hanging fruit, I think some of the low-hanging fruit's out of the way, the structure changes we made. The 45 initiatives that we have right now, some of the larger ones were around how do we take the complete consumer lending experience and go digital and David talked about what we've done with mortgage. There's other examples where we've gone through our branch network and we've taken out about 400,000 hours of work out of the branch network and we've either stopped that work, centralized that work and it's allowed us to reduce bankers which is a big part of that save on head count.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. Let me add to that. So low-hanging fruit – those of you that have been following us know we had a $300 million expense program at one time. We upped that another $100 million and then we did Simplify & Grow. All of that has really been trying to become far more efficient. The first two were about efficiency. Simplify & Grow is about efficiency and effectiveness at revenue growth. And there was a lot of change that was pushed through the organization, and John his team and others have done a great job of dealing with the change.

But the point is, these 45 initiatives that we have that are open right now, we need to get through those and we need more initiatives. We have to get better because our efficiency ratio, we're proud of the fact that we've got another 60%, 59.7%. That's not good enough for us. We think we need to be in the mid-50s right now. We get there, then we'll put another target on. So it's not about just this destination, it's about the process and the journey that we go through just to get better every day as we seek to improve returns for our shareholders.

John B. Owen
Senior Executive Vice President & Chief Operating Officer, Regions Financial Corp.

A

And the biggest focus I would tell you really is around how do we make banking an easier part of this. So, we have agile teams really across the bank working on everything from how do we make the checking account opening process better both at digital and in person. How do we go through and make the mortgage process faster in person. How do we make all consumer loan categories easier. Our commercial credit, David mentioned a 70% reduction in the time it takes to give the customer a yes or a no on a commercial loan. That really was about reengineering the process, some level of automation and really just putting an attention and focus on it with agile teams.

Q

[ph] John (22:22).

Q

[indiscernible] (22:23-22:46)

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Okay. So, the question was our beta has outperformed our peers, at what point do we deal with that and what's the impact. And then if we take our asset sensitivity off, when do we do it and how we do it. That was close enough, wasn't it, [ph] John (23:05)?

Okay. So, from a beta standpoint – [ph] John (23:08) has asked a great question. We can't continue to have outperformance. So, we're about 10 points different than peer median on beta right now. Call it 25% for peer median, we're at 15%. We don't see that going to 15% and 20% and 25%. We think we have to be close enough, otherwise we run the risk of deposit flows going the wrong way. I think the expectation is we still have this beta assumption that we would be in the 55% to 60% through the cycle. So, we're going to give – have to start passing through more of the next increases through – which, by the way, we have December and two baked in next year, one in kind of the middle of the year, the other one in the back end. And we think our beta for those changes are going to have to be fairly consistent with peers.

So, net-net, we still think, when you get to the end of the day, we outperform, but we're not going to continue to have that expansion.

One of the most important things we look at right now is our asset sensitivity. You can see that has come down just a bit, and up [ph] 100 bps (24:17) today. It's about $100 million for us, call it 3%, and that's coming down. It's coming down as we anticipate what we think rates will do and we compare that anticipation with what the market is saying.

And so, if you believe 3% to 3.50% Fed funds is kind of neutral, which I know there's debate as to what that means, but let's for argument's sake say that's neutral, then we think that we need to be prepared to take our sensitivity down to zero to maybe becoming liability sensitive as the economy runs more risk after these increases are rolling over.

And so, it's a timing issue. For us, if we look what we did last time in the up-rate cycle is we ran with sensitivity and had over a 4% margin, and that was great while we were experiencing it. But when the economy turned, it was too late to change that sensitivity and so we got crushed on margin and we had got crushed on credit. Those are the two things we have to do much better on.

So, if you think about – and those of you that are listening and can't see me, if you think about our deposit cost being lower than our peers, when rates roll over, peers will have deposit repricing to help protect their margin and such. We have to use derivatives to help do that. You can't wait till 11th hour to go put your derivative on. It's too expensive. So, you have to leg in as you go. You saw us add about $2 billion worth of floors this past quarter. And so we spend our time, John and ALCO, talking about timing. And it's really looking at rates, looking at the economy, kind of thinking what the Fed may do over the long haul. So, sorry, that's a long answer to a short question.

Q

Yes, [ph] Mike (26:10)?

Q

What is your [ph] best targets (26:12) on why you can compete with the largest banks on scale? Yesterday, or last night, Bank of America highlighted that [indiscernible] (26:20) it's more than a lot of banks your size, total expenses. Yesterday morning we heard from JPMorgan. They've spent $5 million this year on simply technology investment. How do you compete against that?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. So, the question is, how do we think about scale in particular related to technology budget and the fact that the money center banks can spend a lot more money than Regions Financial can spend. And I'll start and then let John kind of add to it.

So, clearly we can't spend anywhere close to what they can. They have more infrastructure that they have to take care of. They're global. They have more countries they have to deal with. We are a little more nimble in terms of looking at what new technologies may be out there that our customers want and need and desire. And so we're constantly asking the question, what's out there? Because what people adopt from a technology that our customers really want, well, we can adopt that fairly quickly. We don't have to be first. So, we aren't going to try to outspend the money center guys.

We'll say that 70% of our markets do not have – we do not have a money center presence in 70% of our markets. We are the money center bank in our markets. So we control and dominate those markets and we believe it's customer service that's the driver. If you can make sure you take care of your customers, then you're going to be in pretty good shape. John, you want to add to that?

John B. Owen
Senior Executive Vice President & Chief Operating Officer, Regions Financial Corp.

A

Yeah, what I'd add to that, really the lens we look at it versus spend is what are our customers telling us. And so we use J.D. Power and Gallup to go really look at our channels. We get a quarterly report, and what we find, whether it's our mobile channel or online or branches, we consistently, through J.D. Power, in the top quartile of performance in mobile and online banking.

So as long as our customers are saying, hey, I think your mobile and online capabilities are meeting our needs, and we're growing our customer base, which we are, and our digital adoption is continuing to grow – we grew logins last year almost 40% in mobile banking. We grew remote deposit capture almost 70% last year in mobile banking. So we're seeing good growth. But again, I look at J.D. Power and Gallup and take that voice to the customer and go, what we're delivering is meeting our customers' needs.

The other thing I would tell you is, they're going to always spend more than we are because of a couple of things. I've got 1,455 branches that I've got to go out on a regular basis and upgrade hardware and software and routers. Those guys have 6,000 or 7,000, so they're going to always spend more than I am in technology. When I go make a system change, I have one branch platform, I have one platform. So when I have to make a change in that platform, I do it one time, I test it one time and I implement it one time. Some of these guys have five, six, seven branch platforms. They'll have to make that change six or seven or eight times. So, they are going to spend more than us, but I don't think that necessarily equates into a better mobile experience.

Amala Duggirala
Enterprise Chief Information Officer, Regions Financial Corp.

A

Yeah. I'd just add one more point to that. Even the simplicity of our architecture, if you look at Bank of America's architecture, the complexity adds in a lot of cost for them. Our reliance on automation or machine learning and predictive analytics or even simplicity of architecture is also enabling us to do things faster. Quick follower, but very comparable to any of those big banks when it comes to our technology for sure.

Q

[ph] Selwyn (29:49).

Q

[indiscernible] (29:50-30:11)

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. So, the question was, what do we really think opportunities are to modify the CECL standard that's due to be implemented January of 2020. All of us have spent a lot of time, money and effort to understand the impact of CECL. We've learned a lot through our modeling techniques. And we were concerned about the impacts on our business related to long-dated lending mortgages would be a prime example. So, today, the new standards that will go in will tell you you need to reserve life loan losses on that mortgage and put that through the provision day one. So, you can see in times of trouble that – and of course interest income's earned over time, you can see you won't make much money on a mortgage loan for some period of time. And when you go into an environment that's troubled, you're going to have less willingness to want to be the financial intermediary that we're supposed to be to try to help get the economy out of the ditch.

And so, we were concerned about what people might do. As a result, about 21 of us signed a letter, it went a couple of days ago to the FASB, went to the regulators, went to the SEC to try and provide a slight modification to the standard which would say we're good with life of loan losses because investors want to know especially in troubled times, am I going to have a capital hole I have to fill and dilute you, and that's what you're really asking. So, we're okay with life of loan losses but split the debit into two places, take one year of losses through P&L to match up with the revenue stream that's coming in that year, and take the rest through OCI so that way you see the capital impacts for life of loan losses. Of course, banks less than $250 billion exclude OCI from capital, so that fixed a second issue that we were concerned about which was a double dip in the capital regime.

So we've talked to Congress. We've talked to the FASB and SEC regulators. We are hopeful that they strongly consider the proposal. We think it's fair and balanced. There's an awful lot of work that has to go on this, and smaller institutions really are going to have a tougher time because they don't have the modeling capabilities that we all developed, and especially those of us that are CCAR banks. So, what's the probability? I don't know. We'll have to see. They just got the letter two days ago. So, they'll go through their vetting process and we'll see.

Q

Yes, [ph] Marty (32:58).

Q

So, David, on that topic, when you're doing life of loan losses, why are we also adding in an economic flavor? In other words, shouldn't we consider that over the life of the loan there's going to be a downturn at some point? So, the fact that we're using or already considering or incorporating that kind of loss, period. So why is it that all of a sudden we're hearing a lot more about [ph] net-netted syndicators explained (33:23) as bad or good and you're going to adjust your provisioning? It just seems like that element of it is going to add a lot of more volatility than what it was intended to do at the beginning.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. So, the standard requires you to look at life of loan which does have – you're leveraging your history and what you know about the economy. But none of us can forecast a downturn nor the severity of a downturn. And it's that delta of what I think about the economy and what my peers think about the economy that differ that we're afraid is going to create undue volatility and a lack of comparability from bank to bank. And as analysts and investors, that's really a problem.

So, yes, we will start day one with higher reserves, right, because the implementation of this will be you'll adjust life of loan losses on day one, push that through equity. So, you have a higher allowance. But then factors change as life goes on. You have new production that you have to deal with as well. It's the new production that concerns me even more because I think that in times of – if we're in benign times right now, CECL is not that big a deal. It's incrementally higher provisioning. But you get into a troubled time when you finally recognize that tsunami wave coming, and you have a massive change which creates the pro-cyclicality that we're trying to at least minimize.

Q

Yes, [ph] Bill (34:54).

Q

Just update on loan growth both the front-end originations and also the payoffs and pay-downs. Is it worsening? Is it getting any better? Is it stable? And also on net interest margin, investment security portfolio yields, what's the outlook for that?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Okay. So, the first was on loan growth and what our expectations were there. Of course, we've had low single digit loan expectations for the year. We said that would be – that would come in the back half of the year. The first half was really leveraging tax savings, whether it be repatriation or extra cash for not having to pay ES payments.

Our production was good in the first half of the year, we've told you that, but it didn't manifest itself in outstandings until the third quarter. So, we had pretty nice growth in the third quarter. It wasn't great growth, but it was fairly solid. It was diversified geographically and within products, primarily in the C&I book. We expect that to continue. We have not seen that run off to the capital markets like we did last year about this time. Doesn't mean it can't happen, we just haven't seen evidence of that. So, we have expectations we'll meet our loan growth target that we laid out.

Your second question was on the securities book, and let me answer a slightly different question, [ph] Bill (36:17), and see if this gets it. So, our fixed-rate securities and loans is about $14 billion that will come through the next 12 months that will be reinvested in whatever the rate is at that time. Our best estimate is about a point to a little over a point pickup in terms of income because of the – just a higher rate environment, which means we have a pretty good tailwind coming. It doesn't require rates to go up at all, it's just rates are already higher than where these fixed-rate assets were. So, that's going to be beneficial to us to continue to grow net interest income and the resulting margin.

Q

[ph] David (37:00)? Oh, yes.

Q

Just one on the artificial intelligence. We've heard a lot about that. And you mentioned IBM Watson. When you land that onto a consumer, what is it looking to learn about me or whoever? I mean, how far does it reach into one place to help you make a better prediction of what that person [indiscernible] (37:21)?

John B. Owen
Senior Executive Vice President & Chief Operating Officer, Regions Financial Corp.

A

Yeah.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

So repeat that, yeah.

John B. Owen
Senior Executive Vice President & Chief Operating Officer, Regions Financial Corp.

A

Yeah. The question was around our AI deployment, how far does that go as far as data and getting to know that unique customer. I'll give you two perspectives. On the one we use on the consumer side which really helps decide the next best action, we're really primarily looking at all of your internal data with the bank. So, what your habits are, what your behaviors are, what products you already have, your income levels, your life stage, children's ages, [ph] is anyone (37:49) preparing for college. So, it's really taking all the data and preferences we know about you with some external data and making a next best recommendation based on that profile. So, again, that's been very helpful for us. We've seen we've driven quite a bit of incremental revenue this year with that. And as it gets smarter, again, it makes better offers and more timely offers.

On the contact center aside, the contact center side really is more looking for how do we take routine service transactions. So, what's my balance, I have a question on how I reset my password, just really trying to take those routine activities and let those be handled by the virtual agent versus those going to a live agent. Now, at any point in time, the customer can opt-out of a virtual agent and go to a live agent. But it really is more around self-assisting and getting those non-value transactions out of the way.

Amala Duggirala
Enterprise Chief Information Officer, Regions Financial Corp.

A

And then also on the contact center side, we are also using the voice of the customer and then the geolocation of the customer also to be using Pindrop as a potential opportunity for us to identify on the fraud side and authentication side also. So, that's another dimension we are going into to help us. So, it's mostly publicly available common information or the information that we know about the customer and their usage patterns [ph] in what we are using more (39:05).

Q

So, it's the [ph] interest in (39:08) the bank as well as public information.

Amala Duggirala
Enterprise Chief Information Officer, Regions Financial Corp.

A

Publicly available information. Yeah.

Q

Yes?

Q

[indiscernible] (39:14-39:25)

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. So the question was one of our peers announced a mid-cycle repurchase and would we consider that and how we think about capital return. So we've been pretty clear that our common equity Tier 1 target is 9.5%. We're at 10.1% today. You saw 80 basis point decline in the first quarter. I wouldn't expect that kind of change going forward. You know now we've front-ended our share repurchase, so earnings will actually catch up with our remaining share authorization that we have from the board and our regulatory supervisors. So we're going to get – we believe we'll get to that 9.5% in 2019. We don't see the need to go out and do it off-cycle. We think we've sent the message pretty clear to our long-term investors what we're going to do. And by executing as large of a share buyback as we have done over the past couple of years and what we just completed should give you confidence that we're on target to get there. And doing an off-cycle, making everybody go through all that just to speed it up just a tad, really we don't see the purpose in doing that.

Q

David, maybe one macro question is when you look at this industry, it's been in consolidation for 30 years. There's been very few larger deals announced in the last 10 or 15 years. What's your view on large bank mergers, no premiums, just put the banks together like a Bank One and a JPMorgan from yesteryear? And what do you think about that kind of consolidation theme at some point in the future?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah, [ph] Gerard (41:12), right now all – so you've heard a lot of things going on at this conference just from those that have presented. There are a lot of moving parts right now that are keeping people busy, implementation of a lot of technology projects. If you were to do a big transaction and try to put two companies together, that is really – it's hard to do in a normal environment, trying to do it now with all the things that all of us have going on means something has to – it can't get done.

And we believe in the case of Regions, optimization of our franchise is more important to us right now. Leverage technology, to get our capital optimized, to become more efficient is really what's in order for us. And if I polled my peers at the other institutions, I suspect they're going through the same kinds of things we are, and throwing an acquisition in there, I don't think would be in the cards at this point in time. Not to mention, and I hate to say where we are in the cycle, but we're nine years into this run – doesn't mean it can't stop, because we haven't been growing all that rapidly. So, I'm not calling for the economy to roll over right now – write that in your notes. But I am saying that with some uncertainty that the market's in, at least over the past 15 days, why do you want to do that and create even more uncertainty? That risk is too high, I believe.

Q

Yes. Yes, [ph] Ken (42:43).

Q

[indiscernible] (42:43-43:01)

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. So, the question was how do we think about leveraging capital to grow noninterest revenue sources given the fact that we sold Regions Insurance Group. So, we went the other way. We believe all of our businesses need to earn their right to the capital that we give them. We weren't making the kind of return we needed to make on Regions Insurance. It was great people and they're going to have great careers where they landed and we're happy for them, some of them got really big jobs. But we just couldn't make it work for us. We weren't big enough in it. And so, we let that go.

We understand and we'd like to have more noninterest revenue. Our two growth areas are service charges and card and ATM fees through account growth, card growth, and we're having that. So, we feel good there. Growing assets under management and wealth is important to us. And we know the market will help us, or it can hurt, depending on which direction it's going in, but hiring more wealth advisers is important to us.

Mortgage will be challenging this next year just like it was this year because the rates are going to be going up. Housing supply in our markets are about four, four and a half months. So, there's not as much activity as we would like. We have outperformed the market because we're more of a purchase shop versus a refinance shop. But we're trying to offset that by hiring more mortgage loan originators, looking for mortgage servicing right acquisitions and using our capital there because we have some excess capacity in our servicing center. Those have become very expensive because everybody now wants them in a rising rate environment. So we have to be careful about utilizing our capital inefficiently.

Capital markets has been an area where we've wanted to grow. That has four or five businesses inside of it where we've hired talent to really help us. BlackArch Partners in the M&A group would be an example there. We're going to continue to make those kind of investments, [ph] Ken (45:03), where it's more people specific.

If there's a company that could help us grow faster that we could – non-bank company that can help us from a noninterest revenue source, we would consider that. What we have found is they're just expensive, because everybody wants the same thing. And so, if it's too expensive, then you just have to do it slower and more organically. But we would love to use our capital for that.

Q

Maybe one final question coming back to technology. Many of the regional banks feel they can compete against the giant universal banks. What metrics do you guys recommend? We look at to see maybe who's slipping behind and not being able to keep up with maybe yourselves and the big universal banks. What's a good metric so that we could determine, wow, this company's got to do something because they don't have scale?

John B. Owen
Senior Executive Vice President & Chief Operating Officer, Regions Financial Corp.

A

Yeah, let me start. I would tell you, the biggest thing we look at is what I've already mentioned. We have J.D. Power's data, we have Gallup data and that's surveys of our customers and other banks' customers. And so I think one of the indicators needs to be, are you growing the bank and are third parties validating that your mobile, online, branch, whatever channel you want to talk about, are they top quartile, second quartile, where do they stack up.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. I think account growth is important. And if you're continuing to grow accounts, you're in pretty good shape. You can always – if you open up an account at Regions, you could evidence it by just seeing what's going on and...

Q

You'd give me a good rate?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

We'll bring you the applications if you want them.

Q

Very good. Just one last question, David. You're going to be in San Francisco in January this next year, do you think?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

I got in trouble the last time I answered that question. I hope so.

Q

[indiscernible] (46:57). Okay.

Unverified Participant

Please join me in a round of applause thanking the folks from Regions.